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SUBJECT: Argentina Economic and Financial Review, January 29-February 4, 2010

1. (U) Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period January 29-February 4, 2010. The unclassified email version of this report includes tables and charts tracking Argentine economic developments. Contact Econ Deputy Jason Witow at WitowJN@state.gov to be included on the email distribution list. This document is sensitive but unclassified. It should not be disseminated outside of USG channels or in any public forum without the written concurrence of the originator. It should not be posted on the internet.

BCRA - Surprise Replacement Named as Redrado's Tenure Officially Ends

2. (SBU) Martin Redrado's tenure as Argentine Central Bank (BCRA) President is over, ending a saga that began in mid-December. Redrado had been fired by Argentine President Cristina Fernandez de Kirchner (CFK) over his refusal to transfer BCRA reserves to the GoA for debt payments. After being reinstated to office by a court, but locked out of the BCRA building by police, he tendered his definitive resignation on January 29. CFK did not accept the resignation; Chief of Cabinet Anibal Fernandez said no action would be taken until an ad hoc bicameral congressional committee, headed by Vice President Julio Cobos, gave its non-binding recommendation to the President on whether or not to remove Redrado. Cobos cast the tiebreaking vote against Redrado on February 2, but rather than agreeing with reasons put forth by CFK, he justified his decision by arguing that Redrado had not followed the BCRA charter with respect to monetary policy during his tenure - implying that he had followed the lead of the Kirchners too closely.

3. (SBU) CFK quickly named a new BCRA President on February 3, Mercedes Marco del Pont, who had been the President of state-owned Banco La Nacion Argentina for over two years. This move surprised observers, who had been expecting the nod to go to either current BCRA Vice President (and interim President) Miguel Pesce or Mario Blejer, a former BCRA President who had been publicly named as Redrado's replacement by Economic Minister Amado Boudou after the initial firing of Redrado. Marco del Pont was also a congresswoman from 2003 to 2007, where she once presented controversial legislation to change the BCRA's charter. CFK, during her announcement of Marco del Pont's appointment, added that similar legislation would be presented to the Congress after it reconvenes.

Marco del Pont is currently Interim BCRA President until she is confirmed by the Senate. (See Buenos Aires 75 for more details.)

Confidence in Government Up since December, Down since Last January

¶4. (SBU) According to a study by the School of Government of the Universidad Torcuato Di Tella, the ICG (index of confidence in the government) in January 2010 rose 21% from December 2009, but was still down 16% compared to January 2009. The January 2010 index was 1.26, after reaching 1.04 in December, down from 1.50 the previous January (on a scale of 0 to 5; 0 being the minimum and 5 being the maximum). The segments of the population that trust the GoA the least are: women, with an index of 1.19; Argentines with at least a university education, with an index of 1.16; residents living outside of Greater Buenos Aires (the capital city and its suburbs), with an index of 1.19; and Argentines between 30 and 50 years of age, with an index of 1.18.

¶5. (SBU) The segments of the population that trust the GoA the

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most are: men, with an index of 1.35; Argentines with a high school education, with an index of 1.39; residents of the suburbs of the capital of Buenos Aires, with an index of 1.38; and Argentines under the age of 30, with an index of 1.35. Despite the increase from December, the current index is barely half of its average for the period when Nestor Kirchner was the President. Also, the University pointed out that there was a notable bump upward from December to January over the previous seven years, averaging 15% during that period.

¶6. (SBU) Specific indexes (comparing Jan 2009 with Jan 2010):

- Belief in the government's honesty decreased by 16% from 2.19 to 1.84.
- Belief that the government is capable of resolving the country's problems decreased by 24% from 2.05 to 1.56.
- Belief that the government is spending public expenditure efficiently decreased by 17% from 1.13 to 0.94.
- Belief that the GoA is serving the national interest decreased by 5% from 1.00 to 0.95.
- The overall evaluation of the GoA decreased by 13% from 1.15 to 1.01.

Salary index rose 16.7% in 2009

¶7. (SBU) According to INDEC (the Argentine National Statistical Agency), the salary index rose 1.0% m-o-m in December, yielding an increase of 16.7% for all of 2009. By broad categories, formal private sector salaries rose 17.4%, the non-registered private (or informal) sector showed a rise of 21.6%, and public sector salaries increased 11.4%. The salary index has increased 230% from

December 2001 to December 2009. [Note: INDEC's calculations are designed to control for variations among the sectors such as quantity of working hours and absenteeism.] According to private analysts, the 2009 salary increases resulted from the persistent demands of various labor unions throughout the year. Labor unions say that they will demand a 15-20% salary increase in 2010, due to Argentina's persistent high inflation. Salary negotiations for several unions are conducted with national government participation; the current administration is widely seen as favorable to unions.

Record Tax Collection in January

18. (SBU) In January 2010, the Ministry of Economy and Public Finance announced that tax collection reached \$29 billion (Argentine pesos), 20.4% above January 2009 collection. The major drivers of the overall tax collection were: social security contributions, up 26.5% to \$9.3 billion; value-added tax (IVA) receipts, up 23.1% to \$8.3 billion; and taxes on profits, which rose 25.8% to \$5.0 billion. The Ministry, in a press release, attributed this record tax collection to an increase in consumption, an overall increase in salaries during the year 2009, and to the various government measures undertaken to minimize the effects of the international financial crisis.

19. (SBU) Many newspapers also attribute the record tax collection to Argentina's high inflation, as private analysts estimate true inflation for 2009 to have been about double the official result of

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7.7%. GoA Secretary of the Treasury Juan Carlos Pezoa responded that "the increase is exclusively thanks to greater [economic] activity. It has nothing to do with prices. People are spending more because they are more confident." The Ministry stated that the newly obtained resources will allow the GoA to continue to "improve Argentines' quality of life, to protect society's most vulnerable sectors, to strengthen public investment throughout the nation and to defend production and national employment."

Automobile Production Increase

10. (SBU) January 2010 automobile production increased by 68.8%, nearly 32,000 units, compared to January 2009, according to the Association of Manufacturers of Automobiles (ADEFA). ADEFA also announced that sales to car dealers increased 48.5% (over 50,000 units) and that automobile exports increased by 137.8% (more than 19,000 units) y-o-y. January 2009 was a very low base for comparison, however, as automobile production slowed drastically due to the uncertainty surrounding the global financial crisis. The executive director of ADEFA, Fernando Rodriguez Canedo, declared that if the present trend holds for 2010, "we could reach production of 640,000 units in 2010." That would be 25% above 2009's total production of 513,000 units, as well as 7% higher than in 2008, when production reached a record 597,000 units.

MARTINEZ